

CITY OF CHARITON

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2005

**Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, Iowa 50265**

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City of Chariton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Braid	Mayor	December, 2005
Bill Kerns	Council Member*	December, 2005
Brian Snuggs	Council Member	December, 2005
Katherine Wallace	Council Member	December, 2005
Joan Amos	Council Member	December, 2007
June Spinler	Council Member	December, 2007
Timothy Vick	Manager	Indefinite
Ruth Ryun	Clerk/Treasurer	December, 2005
Verle W. Norris	Attorney	December, 2005

*-Resigned during the year. Replaced by Brian Snuggs

City of Chariton

PEAK & GERDES, LLP
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WEST DES MOINES, IA 50265

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Chariton's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Chariton as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 29, 2005 on our consideration of the City of Chariton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chariton's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

July 29, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Chariton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 Financial Highlights

- Revenues of the City's governmental activities increased 48%, or approximately \$1,466,000, from fiscal 2004 to fiscal 2005. Property tax revenues decreased by approximately \$33,000. Tax increment financing revenues increased by approximately \$16,000 from fiscal 2004 to fiscal 2005. Bond proceeds increased by approximately \$421,000. The City also received approximately \$870,000 in donations for the cemetery and library, and received a settlement of \$565,000 in relation to the pool.
- Disbursements of the City's governmental activities increased 9%, or approximately \$248,000, in fiscal 2005 from fiscal 2004. Public works and culture and recreation disbursements increased approximately \$241,000 and \$130,000 respectively. Community and economic development expenses decreased approximately \$165,000.
- The City's total cash basis net assets increased 34.5%, or by approximately \$1,619,000, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$1,512,000 and the assets of the business type activities increased by approximately \$107,000.

Using this Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operation in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets present the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into three kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the airport, solid waste and the sanitary sewer system. These activities are financed primarily by user charges.
- The Component Unit includes the activities of the City's Municipal Waterworks. The City has included the Waterworks activities because its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The audited financial statements of the component unit are available at the Waterworks office.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at the year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Swimming Pool, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund, such as Cemetery Perpetual Care. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the sewer and airport funds, considered to be major funds of the City, and the solid waste fund, a non-major fund of the City. The Water Utility is contained within the City's financial statement as a discretely presented component unit. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$4.120 million to \$5.632 million. The analysis that follows focuses on the changes in cash balances for government activities.

Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 344	292
Operating grants, contributions and restricted interest	1,374	604
Capital grants, contributions and restricted interest	566	231
General receipts:		
Property tax	1,319	1,335
Local option sales tax	406	451
Grants and contributions not restricted to specific purposes	-	23
Unrestricted interest on investments	74	24
Bond proceeds	471	50
Miscellaneous	10	4
Sale of assets	-	4
Transfers, net	(46)	34
TOTAL RECEIPTS AND TRANSFERS	4,518	3,052
Disbursements:		
Public safety	590	613
Public works	831	592
Health and social services	9	7
Culture and recreation	585	452
Community and economic development	43	209
General government	346	335
Debt service	511	499
Non-program	91	51
TOTAL DISBURSEMENTS	3,006	2,758
Increase in cash basis net assets	1,512	294
Cash basis net assets beginning of year	4,120	3,826
Cash basis net assets end of year	\$5,632	4,120

The City's total receipts for governmental activities increased by 48%, or approximately \$1,466,000. The cost of all programs and services increased by approximately \$248,000, or 9%, with no new programs added this year. The significant increase in receipts was primarily due to bond proceeds, donations, and settlement funds related to the pool.

The City decreased the property tax rate from \$16.26102 in fiscal 2004 to \$16.2327 in fiscal 2005. The City has decreased the property tax rate each year for the past five years. The City's taxable valuation has decreased by approximately 4.7% in fiscal 2005 compared to fiscal 2004. Based on the decreases in the total assessed valuations, property tax receipts are budgeted to decrease by approximately \$57,000 next year.

The cost of all governmental activities this year was \$3.006 million. However, as shown in the Statement of Activities and Net Assets on pages 17-18, the amount taxpayers ultimately financed for these activities was only \$723,000 because some of the cost was paid by those directly benefited from the programs (\$344,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$1,939,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2005 from approximately \$1.127 million to approximately \$2.283 million, principally due to donations received for the library and cemetery, and a settlement received in relation to the pool construction project. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$723,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service	\$441	449
Capital grants, contributions and restricted interest	12	171
General receipts:		
Unrestricted interest on investments	5	11
Miscellaneous	17	11
Transfers (Net)	46	(35)
TOTAL RECEIPTS AND TRANSFERS	521	607
Disbursements and transfers:		
Airport	100	215
Sewer	300	298
Other (Solid Waste)	14	328
TOTAL DISBURSEMENTS	414	841
Increase (decrease) in cash balance	107	(234)
Cash basis net assets beginning of year	574	808
Cash basis net assets end of year	\$681	574

Total business type activities receipts and transfers for the fiscal year were \$521,000 compared to \$607,000 last year. The significant decrease was due primarily to the receipt of a federal grant for the airport in the last fiscal year. The cash balance increased by approximately \$107,000 from the prior year because the Solid Waste Fund has no debt, and the airport construction was completed in the last fiscal year. Total disbursements for the fiscal year decreased by 50.8% to a total of \$414,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Chariton completed the year, its governmental funds reported a combined fund balance of \$5,661,795, an increase of approximately \$1,506,000 above last years total of \$4,155,932. The following are the major reasons for the change in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$1,130,421 from the prior year to \$1,531,392. Approximately \$870,000 of this increase is due to donations received for the cemetery and library, and \$300,000 in unspent grant proceeds. The balance of the unspent grant proceeds will be spent on equipment and the Auburn Avenue Bridge.
- The Road Use Tax Fund cash balance decreased \$20,218 to (\$3,019) during the fiscal year. While the City did not receive any more funding this fiscal year, equipment purchases and snow removal costs eroded the cash balance in this fund.
- The Swimming Pool Fund cash balance increased by \$621,675 to \$2,209,304. The increase is due primarily to a \$565,000 settlement from the pool architect and contractor in relation to the pool. The sales tax monies deposited to this fund is restricted by referendum for Swimming Pool construction and operation. The Swimming Pool currently has \$1,425,000 in Revenue Bond debt.
- The Debt Service Fund cash balance decreased by \$109,016 to \$374,245 during the fiscal year. Bond principal and interest payments increased by approximately \$12,000 in fiscal year 2005.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Airport Fund had an ending cash balance of \$(140,817), a decrease of \$28,945. The airport is unable to generate enough profit from fuel sales and hanger rent in order to pay its operating costs.
- The Sewer Fund cash balance increased by \$98,317 to \$622,056. Future capital projects scheduled for fiscal 2006, including updating lift-stations and repairs to the sanitary sewer lines, will decrease this balance.

BUDGETARY HIGHLIGHTS

This past year the City of Chariton amended the budget on May 16, 2005. The amendment was reflective of an increase in revenues due to more TIF revenues, changes for services, donations, and bond sales than anticipated. The amendment also approved an increase in operating disbursements of \$289,000 for equipment purchases, increasing fuel costs, road work, and aquatic center expenses. The City financed these projects through existing cash balances, bonds, and federal grants.

DEBT ADMINISTRATION

As of June 30, 2005, the City had approximately \$3,106,000 in outstanding bonds and other long-term debt, compared to approximately \$3,019,000 last year, as shown below.

	Outstanding Debt at Year End (Expressed in Thousands)	
	June 30,	
	2005	2004
General obligation bonds and notes	\$1,580	1,355
Revenue bonds	1,425	1,530
FMHA revenue notes	43	51
Lease purchase agreement	58	83
TOTAL	\$3,106	3,019

Debt increased as a result of issuing corporate purpose notes for street and bridge construction and for the purchase of equipment.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,580,000 is significantly below its constitutional debt limit of \$6,084,039.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Chariton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities.

The City's taxable value has slowly but steadily increased from 2001-2004. However, in fiscal 2005 and 2006 the taxable value has declined. Part of the cause for the decline is the result of the residential rollback.

The City has had to budget during an uncertain period within the state. State funding cuts have presented future funding issues within the City's General Fund. During the fiscal 2005, all departments funded from the General Fund were required to review their department budgets and to either cut disbursements, or offset costs through higher revenues through fines, fees, or costs for services increases.

The City's expected receipts for fiscal 2006 is \$4,808,480, as opposed to fiscal 2005 budgeted receipts of \$5,309,578.

The City's expected disbursements for fiscal 2006 is \$4,982,766, as opposed to fiscal 2005 budgeted disbursements of \$4,868,596.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$174,000 to \$5,747,782 by the close of fiscal 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ruth A. Ryun, City Clerk, 115 South Main Street, Chariton, Iowa.

City of Chariton

Basic Financial Statements

City of Chariton

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

Functions / Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Primary Government:				
Governmental activities:				
Public safety	\$ 590,041	30,796	36,566	-
Public works	831,210	33,847	380,226	-
Health and social services	9,036	-	-	-
Culture and recreation	584,435	127,425	950,650	565,000
Community and economic development	43,249	-	6,420	566
General government	346,127	151,491	-	-
Debt service	510,916	-	-	-
Non-program	91,158	-	-	-
Total governmental activities	3,006,172	343,559	1,373,862	565,566
Business type activities:				
Airport	100,235	22,974	-	11,798
Sewer	299,746	368,051	-	-
Other	14,334	49,865	-	-
Total business type activities	414,315	440,890	-	11,798
Total	\$ 3,420,487	784,449	1,373,862	577,364
Component unit:				
Water utility	\$ 968,839	978,284	-	-
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds (net of \$8,572 discount)				
Miscellaneous				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				

Total cash basis net assets

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Water Utility
(522,679)	-	(522,679)	-
(417,137)	-	(417,137)	-
(9,036)	-	(9,036)	-
1,058,640	-	1,058,640	-
(36,263)	-	(36,263)	-
(194,636)	-	(194,636)	-
(510,916)	-	(510,916)	-
(91,158)	-	(91,158)	-
(723,185)	-	(723,185)	-
-	(65,463)	(65,463)	-
-	68,305	68,305	-
-	35,531	35,531	-
-	38,373	38,373	-
(723,185)	38,373	(684,812)	-
-	-	-	9,445
1,016,881	-	1,016,881	-
70,141	-	70,141	-
231,398	-	231,398	-
406,109	-	406,109	-
74,355	5,342	79,697	5,133
471,428	-	471,428	-
10,377	17,280	27,657	38,129
250	-	250	-
(45,737)	45,737	-	-
2,235,202	68,359	2,303,561	43,262
1,512,017	106,732	1,618,749	52,707
4,120,014	574,041	4,694,055	747,838
\$ 5,632,031	680,773	6,312,804	800,545
\$ (3,019)	-	(3,019)	-
128,435	-	128,435	-
588,432	18,470	606,902	416,191
3,416,555	-	3,416,555	-
1,501,628	662,303	2,163,931	384,354
\$ 5,632,031	680,773	6,312,804	800,545

City of Chariton

Exhibit B

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2005

	General	Special Revenue Road Use Tax	Swimming Pool	Debt Service	Other Nonmajor Governmental Funds	Total
Receipts:						
Property tax	\$ 739,139	-	-	231,398	277,742	1,248,279
Tax increment financing collections	-	-	-	-	70,141	70,141
Other city tax	21,156	-	406,109	-	-	427,265
Licenses and permits	11,410	-	-	-	-	11,410
Use of money and property	23,471	-	4,356	-	36,173	64,000
Intergovernmental	60,227	380,226	-	-	15,448	455,901
Charges for service	128,300	-	-	-	-	128,300
Special assessments	-	-	-	1,192	14,496	15,688
Miscellaneous	1,044,437	-	565,000	-	61,827	1,671,264
Total receipts	2,028,140	380,226	975,465	232,590	475,827	4,092,248
Disbursements:						
Operating:						
Public safety	356,600	-	-	-	233,805	590,405
Public works	338,135	400,444	-	-	93,460	832,039
Health and social services	9,036	-	-	-	-	9,036
Culture and recreation	419,227	-	98,447	-	66,924	584,598
Community and economic development	11,178	-	-	-	32,071	43,249
General government	293,221	-	-	-	57,704	350,925
Debt service	-	-	192,343	318,573	-	510,916
Non-program	-	-	-	-	91,158	91,158
Total disbursements	1,427,397	400,444	290,790	318,573	575,122	3,012,326
Excess (deficiency) of receipts over (under) disbursements	600,743	(20,218)	684,675	(85,983)	(99,295)	1,079,922
Other financing sources (uses):						
Bond proceeds (net of \$8,572 discount)	471,428	-	-	-	-	471,428
Sale of capital assets	250	-	-	-	-	250
Operating transfers in	78,000	-	-	77,138	59,434	214,572
Operating transfers out	(20,000)	-	(63,000)	(100,171)	(77,138)	(260,309)
Total other financing sources (uses)	529,678	-	(63,000)	(23,033)	(17,704)	425,941
Net change in cash balances	1,130,421	(20,218)	621,675	(109,016)	(116,999)	1,505,863
Cash balances beginning of year	400,971	17,199	1,587,629	483,261	1,666,872	4,155,932
Cash balances end of year	\$ 1,531,392	(3,019)	2,209,304	374,245	1,549,873	5,661,795
Cash Basis Fund Balances						
Reserved:						
Debt service	\$ -	-	214,187	374,245	-	588,432
Unreserved:						
General fund	1,531,392	-	-	-	-	1,531,392
Special revenue funds	-	(3,019)	1,995,117	-	1,367,974	3,360,072
Permanent fund	-	-	-	-	181,899	181,899
Total cash basis fund balances	\$ 1,531,392	(3,019)	2,209,304	374,245	1,549,873	5,661,795

See notes to financial statements.

City of Chariton

Exhibit C

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the year ended June 30, 2005

Total governmental funds cash balances (page 19)

\$ 5,661,795

***Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of
the central fuel facility to individual funds. The assets of the Internal Service
Fund are included in governmental activities in the Statement of Net Assets.

(29,794)

Cash basis net assets of governmental activities (page 18)

\$ 5,632,001

Net change in cash balances (page 19)

\$ 1,505,863

***Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:***

The Internal Service Fund is used by management to charge the costs of
the central fuel facility to individual funds. The change on net assets of the
Internal Service Fund is reported with governmental activities.

6,154

Change in cash balance of governmental activities (page 18)

\$ 1,512,017

See notes to financial statements.

City of Chariton

Exhibit D

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds				Internal Service Fund
	Airport	Sewer	Other nonmajor Proprietary Fund Solid Waste	Total	Central Fuel
Operating receipts:					
Use of money and property	\$ 6,263	-	-	6,263	-
Charges for service	16,711	368,051	49,865	434,627	159,711
Miscellaneous	-	-	-	-	4,427
Total operating receipts	22,974	368,051	49,865	440,890	164,138
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	9,197
Public works	-	-	-	-	20,909
Culture and recreation	-	-	-	-	4,183
General government	-	-	-	-	120,486
Business type activities	89,039	299,872	14,334	403,245	3,083
Total operating disbursements	89,039	299,872	14,334	403,245	157,858
Excess (deficiency) of receipts over (under) operating disbursements	(66,065)	68,179	35,531	37,645	6,280
Non-operating receipts (disbursements):					
Intergovernmental	11,798	-	-	11,798	-
Interest on investments	-	3,706	1,636	5,342	-
Miscellaneous	16,518	695	67	17,280	-
Debt service	(11,196)	-	-	(11,196)	-
Total non-operating receipts (disbursements)	17,120	4,401	1,703	23,224	-
Excess (deficiency) of receipts over (under) disbursements	(48,945)	72,580	37,234	60,869	6,280
Operating transfers:					
In	20,000	40,737	-	60,737	-
Out	-	(15,000)	-	(15,000)	-
Total operating transfers	20,000	25,737	-	45,737	-
Net change in cash balances	(28,945)	98,317	37,234	106,606	6,280
Cash balances beginning of year	(111,872)	523,739	163,133	575,000	(36,877)
Cash balances end of year	\$ (140,817)	622,056	200,367	681,606	(30,597)
Cash Basis Fund Balances					
Reserved for debt service	\$ 18,470	-	-	18,470	-
Unreserved	(159,287)	622,056	200,367	663,136	(30,597)
Total cash basis fund balances	\$ (140,817)	622,056	200,367	681,606	(30,597)

See notes to financial statements.

City of Chariton

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the year ended June 30, 2005

Total enterprise funds cash balances (page 21) **\$ 681,606**

*Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the
the central fuel facility to individual funds. The assets of the Internal Service
Fund are included in business type activities in the Statement of Net Assets.

(833)

Cash basis net assets of business type activities (page 18) **\$ 680,773**

Net change in cash balances (page 21) **\$ 106,606**

*Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of
the central fuel facility to individual funds. The change in net assets of the
Internal Service Fund is reported with business type activities.

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Change in cash basis of business type activities (page 18) **\$ 106,732**

See notes to financial statements.

City of Chariton

Notes to Financial Statements

June 30, 2005

(1) **Summary of Significant Accounting Policies**

The City of Chariton is a political subdivision of the State of Iowa located in Lucas County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Council-Manager form of government with the Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides sewer and airport services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Chariton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Chariton (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Chariton Municipal Waterworks is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Waterworks is governed by a three-member board appointed by the City Council and the Waterworks operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the boards of the Area XV Regional Planning Commission, Lucas County Assessor's Conference Board, South Central Iowa Solid Waste Commission and the Chariton Area Development Corporation.

B. Basis of Presentation

Government-wide Financial Statements- The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Swimming Pool Fund is used to account for the local option sales tax and the related costs and debt associated with the Pool.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long term debt.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

The Airport Fund accounts for the maintenance of the City's airport.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Chariton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U. S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works, general government, and debt service functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2005 were not entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the City had the following investments:

Type	Carrying Amount	Fair Value
Corporate stock	<u>\$2,160</u>	<u>\$7,795</u>

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Corporate stock is not an allowable investment according to the Code of Iowa.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation notes, and revenue bonds are as follows:

Year Ended June 30,	General Obligation Notes		Local Option Sales and Services Tax Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$320,000	\$67,782	\$110,000	\$81,528	\$430,000	\$149,310
2007	330,000	53,829	115,000	75,588	445,000	129,417
2008	345,000	40,324	125,000	69,320	470,000	109,644
2009	235,000	25,665	130,000	62,445	365,000	88,110
2010	240,000	15,455	135,000	55,230	375,000	70,685
2011	95,000	5,320	145,000	47,603	240,000	52,923
2012	5,000	752	155,000	39,265	160,000	40,017
2013	5,000	500	160,000	30,275	165,000	30,775
2014	5,000	250	170,000	20,915	175,000	21,165
2015	-	-	180,000	10,800	180,000	10,800
Total	<u>\$ 1,580,000</u>	<u>\$ 209,877</u>	<u>\$ 1,425,000</u>	<u>\$ 492,969</u>	<u>\$ 3,005,000</u>	<u>\$702,846</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the costs of the construction and equipping a municipal swimming pool. The bonds are payable solely from the proceeds of the local option sales tax revenues received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds are not a general obligation of the City. The debt, however, is subject to the constitutional debt limitation of the City.

The resolution providing for the issuance of the local option sales and services revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the City and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly cash transfers shall be made to the swimming pool revenue sinking account for the purpose of making the bond principal and interest payments when due.
- (c) \$198,000 shall be paid into a Swimming Pool Reserve Fund from the loan proceeds.

(4) Farmers Home Administration Revenue Notes

The City is indebted to the Farmers Home Administration for airport revenue notes. At June 30, 2005 the revenue notes had an outstanding balance of \$43,112. Annual debt service requirements to maturity for these revenue notes are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2006	\$ 8,850	\$ 2,346	\$ 11,196
2007	9,396	1,800	11,196
2008	9,975	1,221	11,196
2009	10,591	605	11,196
2010	4,300	62	4,362
Total	<u>\$ 43,112</u>	<u>\$ 6,034</u>	<u>\$ 49,146</u>

The resolution providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity.
- (b) The City shall make monthly payments of \$933, including interest at 6% per year, to the Farmers Home Administration from January, 1990 through December, 2009, inclusive.
- (c) Monthly transfers in the amount of \$94 shall be deposited in a "Reserve Fund", until a balance of \$11,196 has been accumulated.

(5) Lease Purchase Obligations

The City is purchasing a Street Sweeper under a capital lease contract. Future payments in relation to this lease are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2006	\$ 29,769	\$ 1,576	\$ 31,345
2007	28,534	562	29,096
Total	<u>\$ 58,303</u>	<u>\$ 2,138</u>	<u>\$ 60,441</u>

(6) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for the police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$59,661, \$56,095 and \$57,122, respectively, equal to the required contributions for each year.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation leave termination payments payable to employees at June 30, 2005, primarily relating to the General Fund, is \$90,776.

This liability has been computed based on rates of pay as of June 30, 2005.

(8) Deferred Compensation Plan

The City offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows City employees to defer a portion of their current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are, until made available to the participant or other beneficiary, solely the property and rights of the City; without being restricted to the provision of benefits under the plan, subject only to the claims of the City's general creditors.

The City is responsible for due care in managing the investments and the participant or beneficiary assumes the risk of loss from decreases in the value of plan assets. At June 30, 2005 plan assets consisted entirely of annuities purchased from private insurance companies.

The City records the plan assets and related activity in a special revenue fund. Investments held by the deferred compensation plan administrator are reported at fair value.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise: Sewer	\$ 15,000
	Special Revenue: Swimming Pool	63,000
Debt Service: General Obligation Bond	Special Revenue: Urban Renewal Tax Increment	69,673
	Donations	7,465
Special Revenue Urban Renewal Tax Increment	Debt Service: General Obligation Bond	59,434
Enterprise: Sewer	Debt Service: General Obligation Bond	40,737
Enterprise: Airport	General	20,000
Total		<u>\$ 275,309</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(10) Community Economic Betterment Account Grant

A local business was awarded a Community Economic Betterment Account Grant of \$225,000, with the money for these grants passed through the City. Under the grant agreement, the business must meet certain employment goals within a specified period to have \$112,500 of the loans forgiven. The balance, or \$112,500, is to be amortized and paid back over a seven year period.

In the event of default, the City's liability is limited to the amount it can collect from the business. The City also has the responsibility to enforce the security interests against the business in the event of default.

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2005, disbursements in the public works, general government, and debt service functions exceeded the amounts budgeted.

(12) Industrial Development Revenue Bonds

The City has issued a total of \$4,992,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(13) Risk Management

The City of Chariton is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(14) Deficit Fund Balance

At June 30, 2005, the City had deficit balances as follows:

Enterprise Funds - Airport	\$ 140,817
Internal Service Fund - Central Fuel Facility	30,597
Special Revenue Fund - CEBA and Daycare Grant	917
Special Revenue Fund - Donations	1,941
Special Revenue Fund - Road Use Tax	3,019

The Enterprise Funds - Airport deficit should be eventually eliminated by rents received, profit from fuel sold, and transfers from the General Fund.

The Internal Service Fund - Central Fuel Facility deficit should be eventually eliminated from the profit received from the fuel sold.

The Special Revenue Fund - CEBA and Daycare Grant deficit will be eliminated through a transfer from the General Fund.

The Special Revenue Fund - Donations deficit should be eliminated through donations received.

The Special Revenue Fund - Road Use Tax deficit should be eliminated through decreased spending.

(15) Subsequent Events

In fiscal year 2005, the City committed to the purchase of approximately \$135,000 in street equipment which will be received in fiscal year 2006. Also, the City should receive approximately \$70,000 in fiscal year 2006 for closing two railroad crossings in town. In addition, the City will receive \$60,000 over the next four years as a result of a settlement with a contractor.

Required Supplementary Information

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City of Charlton

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds - Primary Government

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property tax	\$ 1,248,279	-	-	1,248,279	1,244,346	1,244,346	3,933
Tax increment financing collections	70,141	-	-	70,141	50,000	68,351	1,790
Other city tax	427,265	-	-	427,265	463,718	463,718	(36,453)
Licenses and permits	11,410	-	-	11,410	12,500	12,500	(1,090)
Use of money and property	64,000	11,605	-	75,605	105,700	105,700	(30,095)
Intergovernmental	455,901	11,798	-	467,699	542,500	542,500	(74,801)
Charge for service	128,300	594,338	159,711	562,927	617,150	675,300	(112,373)
Special assessments	15,688	-	-	15,688	56,908	56,908	(41,220)
Miscellaneous	1,671,264	21,707	4,427	1,688,544	237,450	1,117,450	571,094
Total receipts	4,092,248	639,448	164,138	4,567,558	3,330,272	4,286,773	280,785
Disbursements:							
Public safety	590,405	9,197	9,197	590,405	497,001	605,001	14,596
Public works	832,039	20,909	20,909	832,039	630,247	770,247	(61,792)
Health and social services	9,036	-	-	9,036	7,400	10,400	1,364
Culture and recreation	584,598	4,183	4,183	584,598	499,912	599,912	15,314
Community and economic development	43,249	-	-	43,249	146,000	84,000	40,751
General government	350,925	120,486	120,486	350,925	319,967	319,967	(30,958)
Debt service	510,916	-	-	510,916	503,870	503,870	(7,046)
Capital projects	-	-	-	-	250,000	250,000	250,000
Business type activities	-	417,524	3,083	414,441	603,516	603,516	189,075
Non-program	91,158	-	-	91,158	-	-	(91,158)
Total disbursements	3,012,326	572,299	157,858	3,426,767	3,437,913	3,746,913	320,146
Excess (deficiency) of receipts over (under) disbursements	1,079,922	67,149	6,280	1,140,791	(127,641)	539,860	600,931
Other financing sources, net	425,941	45,737	-	471,678	300,000	480,000	(8,322)
Excess of receipts and other financing sources over disbursements and other financing uses	1,505,863	112,886	6,280	1,612,469	172,359	1,019,860	592,609
Balances beginning of year	4,155,932	538,123	(36,877)	4,730,932	4,766,077	4,766,077	(35,145)
Balances end of year	\$ 5,661,795	651,009	(30,597)	6,343,401	4,938,436	5,785,937	557,464

See accompanying independent auditor's report.

City of Chariton

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$289,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public works, general government, and debt service functions.

Other Supplementary Information

City of Chariton

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Special					
	Revolving Loan Fund	Section 8 Interest Housing	Employee Benefits	CDBG Housing	Urban Renewal Tax Increment	CEBA and Daycare Grant
Receipts:						
Property tax	\$ -	-	277,742	-	-	-
Tax increment financing collections	-	-	-	-	70,141	-
Use of money and property	-	1,420	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-
Miscellaneous	-	-	-	566	-	-
Total receipts	-	1,420	277,742	566	70,141	-
Disbursements:						
Operating:						
Public safety	-	-	102,455	-	-	-
Public works	-	-	93,460	-	-	-
Culture and recreation	-	-	56,748	-	-	-
Community and economic development	25,000	-	-	1,799	-	-
General government	-	-	57,704	-	-	-
Non-program	-	-	-	-	-	-
Total disbursements	25,000	-	310,367	1,799	-	-
Excess (deficiency) of receipts over (under) disbursements	(25,000)	1,420	(32,625)	(1,233)	70,141	-
Other financing sources (uses):						
Operating transfers in	-	-	-	-	59,434	-
Operating transfers out	-	-	-	-	(69,673)	-
Total other financing sources (uses)	-	-	-	-	(10,239)	-
Net change in cash balances	(25,000)	1,420	(32,625)	(1,233)	59,902	-
Cash balances beginning of year	109,862	73,012	47,758	20,274	68,533	(917)
Cash balances end of year	\$ 84,862	74,432	15,133	19,041	128,435	(917)
Cash Basis Fund Balances						
Unreserved:						
Special revenue funds	\$ 84,862	74,432	15,133	19,041	128,435	(917)
Permanent fund	-	-	-	-	-	-
Total cash basis fund balances	\$ 84,862	74,432	15,133	19,041	128,435	(917)

See accompanying independent auditor's report.

Schedule 1

Revenue				Capital Projects	Permanent	
Library Endowment	Deferred Compensation	Special Assessment	Donations	Demolition	Cemetery Perpetual Care	Total
-	-	-	-	-	-	277,742
-	-	-	-	-	-	70,141
151	34,513	-	-	89	-	36,173
-	-	-	15,448	-	-	15,448
-	-	14,496	-	-	-	14,496
10,272	38,708	-	8,712	-	3,569	61,827
10,423	73,221	14,496	24,160	89	3,569	475,827
-	-	-	-	131,350	-	233,805
-	-	-	-	-	-	93,460
-	-	-	10,176	-	-	66,924
-	-	-	5,272	-	-	32,071
-	-	-	-	-	-	57,704
-	83,683	-	7,475	-	-	91,158
-	83,683	-	22,923	131,350	-	575,122
10,423	(10,462)	14,496	1,237	(131,261)	3,569	(99,295)
-	-	-	-	-	-	59,434
-	-	-	(7,465)	-	-	(77,138)
-	-	-	(7,465)	-	-	(17,704)
10,423	(10,462)	14,496	(6,228)	(131,261)	3,569	(116,999)
95,840	853,745	84,887	4,287	131,261	178,330	1,666,872
106,263	843,283	99,383	(1,941)	-	181,899	1,549,873
106,263	843,283	99,383	(1,941)	-	-	1,367,974
-	-	-	-	-	181,899	181,899
106,263	843,283	99,383	(1,941)	-	181,899	1,549,873

City of Chariton

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Bonds and Interest Due and Unpaid
General Obligation Bonds and Notes-									
Corporate Purpose	March 1, 1995	4.99-5.60%	\$ 275,000	35,000	-	35,000	-	1,960	-
Corporate Purpose	September 1, 1997	4.20-4.90%	550,000	330,000	-	75,000	255,000	15,935	-
Corporate Purpose and Refunding	November 1, 1999	4.50-5.30%	715,000	260,000	-	40,000	220,000	13,368	-
Corporate Purpose	July 1, 2001	4.00-4.80%	690,000	560,000	-	70,000	490,000	25,290	-
Corporate Purpose	February 1, 2003	2.00-3.30%	150,000	120,000	-	30,000	90,000	3,405	-
Economic Development Note	June 1, 2004	4.93%	50,000	50,000	-	5,000	45,000	2,465	-
Corporate Purpose	May 1, 2005	2.80-3.55%	480,000	-	480,000	-	480,000	-	-
Total			\$ 1,355,000	\$ 1,355,000	480,000	255,000	1,580,000	62,423	-
Revenue Bonds-									
Local Option Sales and Service Tax	December 1, 1999	4.70-6.00%	\$ 1,980,000	1,530,000	-	105,000	1,425,000	87,093	-
FmHA Revenue Notes-									
FmHA Airport Revenue Notes(Note 4)	December 1, 1989	6.00%	\$ 130,000	51,448	-	8,336	43,112	2,860	-
Lease Purchase Agreement-									
Equipment	June 15, 2002	4.50%	\$ 129,900	82,598	-	24,295	58,303	2,376	-

See accompanying independent auditors report.

Bond and Note Maturities

June 30, 2005

General Obligations Bonds and Notes

[illegible]Revenue Bonds
Local Options Sales

Year Ending June 30,	Local Options Sales and Services Tax Issued December 1, 1999		Revenue Bonds Total
	Interest Rates	Amount	
2006	5.40%	\$ 110,000	\$ 110,000
2007	5.45%	115,000	115,000
2008	5.50%	125,000	125,000
2009	5.55%	130,000	130,000
2010	5.65%	135,000	135,000
2011	5.75%	145,000	145,000
2012	5.80%	155,000	155,000
2013	5.85%	160,000	160,000
2014	5.95%	170,000	170,000
2015	6.00%	180,000	180,000
		\$ 1,425,000	\$ 1,425,000

See accompanying independent auditor's report.

City of Chariton

Schedule 4

Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds

For the Last Three Years

	2005	2004	2003
Receipts:			
Property tax	\$ 1,248,279	1,281,166	1,282,678
Tax increment financing collections	70,141	53,680	47,726
Other city tax	427,265	470,216	457,282
Licenses and permits	11,410	8,648	7,814
Use of money and property	64,000	150,407	53,503
Intergovernmental	455,901	668,993	711,316
Charges for service	128,300	176,839	170,532
Special assessments	15,688	26,119	48,773
Miscellaneous	1,671,264	127,176	198,841
Total	<u>\$ 4,092,248</u>	<u>2,963,244</u>	<u>2,978,465</u>
Disbursements:			
Operating:			
Public safety	\$ 590,405	613,188	673,094
Public works	832,039	591,061	653,954
Health and social services	9,036	7,457	10,640
Culture and recreation	584,598	451,533	491,819
Community and economic development	43,249	208,933	103,967
General government	350,925	330,853	287,664
Debt service	510,916	498,754	543,079
Capital projects	-	21	8,571
Non-program	91,158	50,820	72,883
Total	<u>\$ 3,012,326</u>	<u>2,752,620</u>	<u>2,845,671</u>

See accompanying independent auditor's report.

PEAK & GERDES, LLP
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Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government
Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated July 29, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Chariton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Chariton's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05 and I-B-05 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Chariton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Chariton and other parties to whom the City of Chariton may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Chariton during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

July 29, 2005

City of Chariton
Schedule of Findings
Year Ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-05 Fuel Procedures - For the Airport Fuel Fuelity, based on the quantity of fuel purchased during the year, the quantity of fuel on hand as of June 30, 2005 and 2004, and the mark up price, it is questionable whether all fuel has been accounted for properly.

Recommendation - The City implement procedures to insure all fuel is accounted for properly.

Response - We will review this and take action as necessary.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings

Year Ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were exceeded at one bank during the year ended June 30, 2005.

Recommendation - To ensure compliance with the Code of Iowa requirements, the City implement procedures to ensure the depository resolution is not exceeded.

Response - We will implement the recommendation.

Conclusion - Response accepted.

II-B-05 Certified Budget - Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the public works, general government and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-05 Business Transactions - No business transactions between the City and City officials or employees were noted.

II-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

City of Chariton

Schedule of Findings

Year Ended June 30, 2005

- II-H-05 Deposits and Investments - The City library has received stock as part of a bequest. This type of investment is not normally permitted by the Code of Iowa. However, the terms of the trust agreement prohibits the City from disposing of these investments.

The City cemetery owns stock which was purchased in previous years. This is not a permissible investment in accordance with the Code of Iowa, nor with the City's investment policy.

Recommendation - The City should continue its efforts to dispose of cemetery stock and reinvest in permissible investments as soon as possible.

Response - We have continued our efforts to dispose of the stock but the market value was so low that it was in the best interest of the City not to sell at that time. We will sell it in the future if the market improves.

Conclusion - Response accepted.

- II-I-05 Revenue Bonds and Notes and General Obligation Bonds - The City has complied with the revenue bond and note resolutions. The City also issued general obligation bonds in 2001. It is questionable as to whether the City used these general obligation bond proceeds as required by the bond resolutions.

Recommendation - The City consult with their bond attorney to determine the proper disposition of this matter.

Response - We will review this with our bonding attorney.

Conclusion - Response accepted.

- II-J-05 Financial Condition - The Enterprise Funds – Airport, Internal Service Fund – Central Fuel Facility, and the Special Revenue Funds – CEBA and Daycare Grant, Donation, and Road Use Tax Fund all had deficit balances at June 30, 2005. The balance in the Debt Service Fund may be excessive.

Recommendation - The City should monitor these accounts in order to eliminate these deficits, and take steps to reduce the balance in the Debt Service Fund.

Response - The Enterprise Funds – Airport deficit should be eventually eliminated by rents received, profit from fuel sold, and through a transfer from the General Fund. The Internal Service Fund – Central Fuel Facility deficit should be eventually eliminated from the profit received from the fuel sold. The Special Revenue Funds - CEBA and Daycare Grant deficit will be eliminated through transfers from the General Fund. The Special Revenue Funds – Donations deficit will be eliminated through donations received. The Special Revenue Funds – Road Use Tax Fund deficit will be eliminated through decreased spending. In addition, we will evaluate the balance in the Debt Service Fund to determine if the cash on hand is excessive.

Conclusion - Response accepted.

City of Chariton
Schedule of Findings
Year Ended June 30, 2005

II-K-05 Transfer – At June 30, 2005, \$29,717 was due from the Special Revenue - Urban Renewal Tax Increment Fund to the Debt Service Fund.

Recommendation - The City make the above transfer.

Response - We will implement this recommendation.

Conclusion - Response accepted.

II-L-05 Receipt Procedures - In August 2004, the City filed a grant reimbursement claim for approximately \$14,000 with the Federal Aviation Administration (FAA). However, as of audit fieldwork date, this reimbursement has not been received by the City.

Recommendation - The City implement procedures to ensure all reimbursements due to them are received on a timely basis.

Response - We are still working on some additional requirements that need to be met before the FAA will pay us these funds.

Conclusion - Response accepted.

II-M-05 Payment of General Obligation Bonds - Certain general obligation bonds were paid from funds other than the Debt Service Fund. Chapter 384.4 of the Code of Iowa states in part "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund." Adjustments were subsequently made to the financial statements to show all general obligation bond payments made from the Debt Service Fund.

Recommendation - All payments of general obligation bonds should be disbursed from the Debt Service Fund.

Response - We will implement this.

Conclusion - Response accepted.

II-N-05 Construction Project - Chapters 384.96 to 384.103 requires the City to obtain sealed bids and hold a public hearing for all public improvement projects which cost in excess of \$35,000. The City spent approximately \$200,000 on a paving project. The County combined this project with their own project, and City personnel thought the County followed all of the above requirements in relation to both the City and County project. However, it is questionable as to whether the City should have followed the above Code requirements in relation to their part of the project.

Recommendation - The City consult with legal counsel to determine the proper disposition of this matter.

Response - We will consult our legal counsel.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings

Year Ended June 30, 2005

II-O-05 Tax Increment Financing - The amount certified to the County Auditor on the Tax Increment Debt Certificate did not take into account the cash on hand in the Urban Renewal Tax Increment Fund as of the date of certification.

Recommendation - The City implement procedures to ensure the amount certified on the Tax Increment Debt Certificate takes into account the cash on hand in the Urban Renewal Tax Increment Fund as of certification date.

Response - We will implement the recommendation.

Conclusion - Response accepted.